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SUBJECT: CHINA/ENERGY - PDAS FREDRIKSEN HOLDS WIDE-RANGING ENERGY
DISCUSSIONS WITH NDRC ENERGY BUREAU

SUMMARY

¶1. BEGIN SUMMARY: United States Department of Energy (DOE) Principal Deputy Assistant Secretary for Policy and International Affairs Katharine Fredriksen discussed a wide range of bilateral energy issues during a meeting with National Development and Reform Commission (NDRC)/Energy Bureau Director-General XU Yongsheng on June 12, 2007. The meeting included discussions relating to upcoming bilateral energy meetings (i.e. Energy Policy Dialogue, Oil and Gas Industry Forum), expansion of proposed biofuel and industrial energy efficiency frameworks, status of Global Nuclear Energy Partnership (GNEP), and an impending letter relating to China's special oil levy that Secretary Bodman will send to NDRC Chairman MA Kai. DDG Xu requested that Washington consider moving the venue of the September EPD and OGIF events from San Francisco to the East Coast or the Midwest because the Vice Chairman will have other meetings in New York City and Chicago. DDG Xu mentioned that the EPD has always been a closed door dialogue between the two governments on policy issues. (Note: This is to respond to DOE's request that a U.S. Industry workshop be considered in conjunction with EPD during the conclusion of the Second EPD). DOE will submit a draft agenda of EPD by June 15 and NDRC will fax its detailed consideration for OGIF to DOE/Beijing Office immediately. PDAS Fredriksen passed along a Chinese version of the draft biofuel roadmap to NDRC for revisions. The NDRC suggested that the current USG proposal on biofuel roadmap be broadened to biomass energy production, which could include electricity generation, biogas, and biofuel. PDAS Fredriksen then discussed NDRC hosting a delegation from DOE to discuss and finalize the plans for conducting the Industrial Energy Efficiency Assessments program as agreed to during the September EPD and SED I. NDRC stated that they want to have a broader energy efficiency agreement to be signed during the Third EPD. However, NDRC did agree to a delegation from DOE in July/August to finalize plans to implement the Efficiency Assessments once an MOU is signed. NDRC offered a draft conservation MOU for DOE review and comment. NDRC prefers to coordinate EPD and OGIF through DOE/Beijing Office; biomass and energy efficiency frameworks via PDAS Fredriksen of PI and PDAS Mizroch (Office of Energy Efficiency and Renewable Energy.) END SUMMARY.

NDRC: EPD, OGIF DATES SET, BUT NDRC WANTS VENUE CHANGE

¶2. (SBU) National Development and Reform Commission (NDRC) Energy

Bureau Deputy Director-General (DDG) Xu Yongsheng began the meeting by stating that NDRC Vice Chairman Chen Deming has three planned events while visiting the U.S. during September 9-12, 2007: Energy Policy Dialogue (EPD); the Oil and Gas Industry Forum (OGIF); and GE meetings in New York and Chicago. Due to travel time constraints, Vice Chairman Chen will most likely only attend the closing ceremony for the OGIF, but plans to be present for all of the EPD. DDG Xu requested that the Department of Energy (DOE) move the planned location of the meetings from California to either the East Coast or the Midwest to accommodate Vice Chairman Chen's tight schedule. The NDRC has formulated its initial thoughts on the EPD topics and will pass along its thoughts through DOE's Beijing Office. NDRC also raised the question about how to communicate with each other on these two events. NDRC prefers coordination through DOE's Beijing Office. The NDRC's Point of Contact is Gu Jun, Division Director, Department of International Affairs. DDG Xu closed discussions on the OGIF and the EPD by noting that the NDRC considers the EPD to be a "closed" government policy forum.

GNEP STATEMENT REVIEW UNDERWAY

¶3. (SBU) In response to Principal Deputy Assistant Secretary (PDAS) Fredriksen's query on the status of Beijing's review of the Global Nuclear Energy Partnership (GNEP) Statement of Principles (SOP), DDG Xu stated that the NDRC will pass along its comments soon. In a related matter, the NDRC is unclear whether it is appropriate to invite new GNEP members before finalizing the SOP. DDG Xu noted that doing so could delay the finalizing the SOP. In response, PDAS Fredriksen noted that non-full fuel cycle countries invited to participate in GNEP would have no say in drafting the SOP. This means that inviting new non-full fuel cycle participants and the work on the SOP could move in parallel, according to PDAS

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Fredriksen.

BIOFUEL ROADMAP PROPOSAL

¶4. (SBU) DDG Xu stated that the NDRC wants to collaborate on biomass energy production rather than the biofuel roadmap that they previously agreed to undertake. The expanded biomass cooperation could include electricity generation, biogas, and biofuels, which will be more in-line with the Chinese Government's own broader biomass fuel strategy. In response, PDAS Fredriksen noted that the NDRC had requested during an April 2007 high-level NDRC visit to the National Renewable Energy Lab (NREL), led by DDG Xu, that DOE and China collaborate in developing a biofuel roadmapping exercise for China. There could be budgetary implications by delaying the roadmapping exercise in order to create a broader biomass project, the PDAS added. PDAS Fredriksen passed along a draft of Chinese version of the proposed U.S.-China Biofuels Collaboration to NDRC for comments. DDG Xu stated that the NDRC fully understands United States Government budgetary issues and will do its best to ensure that the change does not significantly delay implementation and will get back to DOE as soon as possible with edits to expand the proposal. Regarding coordination, NDRC wants to have direct contact with PDAS Fredriksen and PDAS for Energy Efficiency and Renewable Energy John Mizroch.

NDRC LOOKING FOR BROADER PLAN ON ENERGY EFFICIENCY COLLABORATION

¶5. (SBU) In response to PDAS Fredriksen's request for a DOE industrial energy efficiency assessment team visit to Beijing, DDG Xu stated that the NDRC wants to have a broader energy efficiency agreement in place before moving forward with an industrial energy efficiency initiative. PDAS Fredriksen noted that DOE Secretary Bodman signed such an agreement with MOST during the first US-China Strategic Economic Dialogue (SED) meeting. Moreover, there has been a significant amount of bilateral discussions in the EPD held in

September 2006 as well as SED on establishing an industrial energy efficiency program. DDG Xu stated that DOE's agreement with MOST relates merely to science and technology issues. The NDRC is the lead Chinese Government agency for energy efficiency and as such, an overarching agreement must be signed by them, even though energy efficiency is NOT within the Energy Bureau's authority. [Note: the NDRC's lead interlocutor for energy efficiency issues was unable to attend the meeting. Energy efficiency related activities are handled by the Department of Energy Conservation and Resources Protection. End Note.] The EPD would be a good occasion for signing such an agreement, according to DDG Xu.

¶ 16. (SBU) DDG XU stated that the NDRC passed its proposal for an energy efficiency agreement to DOE on 20 May, but had so far not received any comments on the draft. PDAS Fredriksen replied that she looked at the NDRC proposal for the first time on June 11. (Note: PDAS Fredriksen observed that the NDRC's draft obviously did not make it through DOE's email firewall. This demonstrates the need for the NDRC to confirm DOE's receipt of such documents by working with DOE's Beijing Office, said PDAS Fredriksen. End Note) The NDRC's proposal calls for cooperation in several areas handled by other agencies in the United States Government, such as labeling conducted by the Environmental Protection Agency (EPA), according to PDAS Fredriksen, thus DOE could not enter into agreements on subjects under the jurisdiction of other United States Government agencies. Increasing the scope of the original industrial energy efficiency collaboration such as EnergyStar would necessarily involve engaging multiple agencies (i.e. DOE and EPA) for the United States and China, with each country responsible for managing their respective interagency coordination.

¶ 17. (SBU) PDAS Fredriksen went on to reiterate that the DOE position is that bilateral cooperation on energy efficiency issues are much better served by completion of a series of discrete projects, such as conducting the energy audit for 8 to 10 of the largest energy consumers within Chinese industry firm, rather than trying to manage projects under an umbrella agreement. In that regard, working together on the industrial energy efficiency assessment plan would be a good first step in energy efficiency cooperation. DDG Xu stated that the NDRC appreciates DOE willingness to work on industrial energy efficiency, but must have an overarching agreement in place first. DOE should make edits to the draft NDRC umbrella agreement as quickly as possible to ensure that it is ready to be signed during the EPD, said DDG Xu. However, DDG XU agreed to DOE's

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request to send an 8-10 person industrial energy efficiency assessment team to Beijing in July or August to finalize details of the audit plan, and should be coordinated through the NDRC's International Cooperation Department.

PUNT WRAP-UP

¶ 18. (SBU) PDAS Fredriksen provided the NDRC with a record of the 4th Joint Coordinating Committee Meeting under the U.S.-China Peaceful Uses of Nuclear Technology (PUNT) Agreement signed between NDRC and DOE. DDG Xu noted that although the NDRC did not attend this PUNT meeting, it has a close working relationship with China Atomic Energy Authority (CAEA), which implements PUNT activities and follows PUNT developments closely. PDAS Fredriksen closed the PUNT discussions by noting that DOE has arranged a visit to the Savannah River nuclear facility and a meeting with Secretary Bodman for a delegation led by the CAEA's Chairman, Sun Qin.

SPECIAL OIL LEVY LETTER ON ITS WAY

¶ 19. (SBU) PDAS Fredriksen and DDG Xu closed their meeting by discussing China's Special Levy on Earnings from Petroleum. PDAS Fredriksen stated that Secretary Bodman will be sending a letter to NDRC Chairman Ma asking for him to work with the Ministry of Finance (MOF) to find a solution that will not discourage or inhibit investment in production and to reconsider the oil profit levy

because of its impact on contractual obligations by United States oil companies doing business in China as well as Chinese companies. The United States had a similar windfall tax in the 1970's, but repealed the tax after discovering it discouraged production, said PDAS Fredriksen. DDG Xu stated that NDRC Chairman Ma will be told to expect the letter. PDAS Fredriksen and DDG XU agreed that since this is a taxation issue, China's MOF is the lead agency for this matter and DDG Xu observed that the levy applies equally to both foreign and domestic companies.

PARTICIPANTS AND CLEARANCES

¶10. (U) United States participants:

Katharine Fredriksen, PDAS, Office of Policy and International Affairs, DOE
Lee Gebert, Staff, Office of Policy and International Affairs, DOE
James Quinn, Technology Manager, Industrial Technology Program, Office of Energy Efficiency and Renewable Energy, DOE
Maria Holleran-Rivera, Staff, DOE China Office
Brian Jones, Economic Officer, Embassy Beijing

Chinese participants:

Xu Yongsheng, DDG, Energy Bureau, NDRC
Gu Jun, Division Director, Department of International Affairs, NDRC

Liang Zhipeng, Deputy Director, Renewable Energy Division, Energy Bureau, NDRC
Liu Deshun, Director, International Cooperation Division, Energy Bureau, NDRC
Cheng Xin, International Cooperation Division, Energy Bureau, NDRC
Qin Zhi Jun, Power Division Engineer, Basic Industries Department, NDRC
Liu Hong, Oil Stockpiling Office, Energy Bureau, NDRC
Dong Wan Cheng, (need title), NDRC
Li Chao, Department of International Affairs, NDRC

¶11. (U) PDAS Fredriksen cleared this cable.

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